

Message Text

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ACTION EA-10

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R 120635Z MAY 75

FM AMCONSUL HONG KONG

TO SECSTATE WASHDC 4942

INFO AMEMBASSY CANBERRA

AMEMBASSY TAIPEI

AMEMBASSY TOKYO

USLO PEKING

C O N F I D E N T I A L HONG KONG 5208

NOFORN

E.O. 11652: XGDS-1

TAGS: ETRD, EPAP, CH, AS

SUBJECT: PRC THREATENS AUSTRALIA WITH RETALIATION FOR TEXTILE
AND FOOTWEAR RESTRAINTS

REF: HK-2230

SUMMARY. CONCERNED OVER AUSTRALIAN TEXTILE AND FOOTWEAR
RESTRAINTS, THE PRC HAS THREATENED TO REDUCE ITS WOOL PUR-
CHASES FROM AUSTRALIA IF ITS EXPORTS THERE ARE DISRUPTED.
THIS PRC TACTIC OF LINKING FUTURE TEXTILE-RELATED PURCHASES
WITH FUTURE PRC TEXTILE SALES MIGHT BE USED IN FUTURE NEGO-
TIATIONS WITH THE U.S. ON THE SAME TOPIC. END SUMMARY

1. (BEGIN XGDS-1) AN AUSTRALIAN EMBOFF IN PEKING WAS
RECENTLY TOLD BY AN OFFICIAL OF THE PRC'S CHINA NATIONAL
TEXTILE IMPORT AND EXPORT CORPORATION (CHINATEX) THAT CHINATEX
WAS SERIOUSLY CONCERNED OVER GOA ACTIONS TO CONTROL TEX-
TILE AND FOOTWEAR PRODUCTS IMPORTS. IF THE RESTRICTIONS
SERIOUSLY DISRUPT CHINESE EXPORTS, HE SAID, CHINATEX MIGHT
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REDUCE ITS PURCHASES OF AUSTRALIAN WOOL.

2. THIS TYPE OF PRC THREAT IS NOT NEW. IN THE EARLY 1960S, AND AGAIN IN THE LATE 1960S, AUSTRALIA IMPOSED CURBS ON FOOTWEAR IMPORTS, MUCH OF WHICH CAME FROM THE PRC. THE PRC RESPONDED BY CUTTING ITS PURCHASES OF AUSTRALIAN HIDES. THE PRC CALCULATED THE PERCENTAGE REDUCTION IN DOLLAR VALUE OF ITS FOOTWEAR EXPORTS TO AUSTRALIA, AND THEN REDUCED THE DOLLAR VALUE OF ITS OVERALL HIDE PURCHASES FROM AUSTRALIA, BY APPROXIMATELY THE SAME PERCENTAGES. THIS METHOD OF RETALIATION HAD A GREATER ADVERSE EFFECT ON THE AUSTRALIAN BALANCE OF TRADE THAN WOULD HAVE OCCURRED HAD THE PRC MADE THE SAME PERCENTAGE REDUCTION ONLY IN ITS PURCHASES OF HIDES USED FOR SHOES. THE DIFFERENCE WAS APPARENTLY INTENTIONAL AND RETALIATORY IN NATURE.

3. IN 1974, THE PRC BOUGHT ROUGHLY US\$15 MILLION WORTH OF WOOL DOR PROCESSING IN THE TRADITIONAL CHINESE TEXTILE CENTERS OF SHANGHAI AND TIENTSIN FOR RE-EXPORT AS PRODUCTS AND GARMENTS. THE CHINATEX THREAT IS CLOSELY RELATED TO THE PRC'S LONG-STANDING CONCERN OVER THE APPARENTLY INTRACTABLE BILATERAL TRADE DEFICIT WITH AUSTRALIA WHICH REACHED \$200 MILLION IN 1974.

4. THE SAME CHINATEX OFFICIAL ALSO REITERATED THE PRC'S PRINCIPLED POSITION ON THE SANCTITY OF EXISTING CONTRACTS, WHICH IT BELIEVES SHOULD TAKE PRECEDENCE OVER IMPORT QUOTAS. IN REPLY, THE AUSTRALIAN EMBOFF EXPLAINED THOSE PROVISIONS OF THE GOA RESTRICTIONS RELATING TO PRE-EXISTING CONTRACTS.

5. THIS CONVERSATION IS NOT THE FIRST TIME THAT PRC OFFICIALS HAVE EXPRESSED CONCERN OVER AUSTRALIAN TEXTILE AND FOOTWEAR RESTRICTIONS, OR HAVE LINKED THIS TO FUTURE PRC PURCHASES OF AUSTRALIAN GOODS. IN EARLY DECEMBER 1974, MFT THIRD DEPARTMENT DIRECTOR CHENG TO-PING TOLD AUSTRALIAN AMBASSADOR FITZGERALD THAT GOA RESTRAINTS ON TEXTILES AND FOOTWEAR AND PARTICULARLY THE LATTER, WERE CAUSING DOMESTIC DIFFICULTIES. CHENG ARGUED THAT THE PRC HAD PROVIDED AUSTRALIA WITH STABLE MARKETS THROUGH LONG-TERM COMMODITY ARRANGEMENTS, BUT THAT CHINA HAD NO GUARANTEE OF STABILITY IN THE

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AUSTRALIAN MARKET. NOW, HE COMPLAINED, PRC EXPORT GOODS WERE BEING SUBJECTED TO UNEXPECTED RESTRAINTS ON ITEMS WHICH COULD NOT BE SOLD IN CHINA OR ELSEWHERE (END XGDS-1).

6. (BEGIN LOU) THE PRC HAS BEEN FULLY INFORMED OF THE REASONS FOR THE AUSTRALIAN RESTRAINTS. A GOA TEXTILE NEGOTIATING GROUP SPENT A WEEK IN PEKING LAST FALL FOR WHAT NCNA DESCRIBED AS AN "EXCHANGE OF VIEWS" ON THE QUESTION OF CHINESE

TEXTILE EXPORTS TO AUSTRALIA (NCNA AUGUST 21, 1974), AND RESTRAINTS WERE NEGOTIATED AT THAT TIME. IN THOSE NEGOTIATIONS THE TWO TOUGH ISSUES APPARENTLY WERE THE LEVELS OF EXPORTS AND CHINESE INSISTENCE THAT THE GOA PERMIT ENTRY OF GOODS FOR WHICH PRC EXPORT CONTRACTS HAD ALREADY BEEN SIGNED. AT THE TIME THE GOA TEAM FELT THAT THE CHINESE HAD TRIED TO PUT ONE OVER ON THEM IN THE PRE-EXISTING CONTRACT ISSUES. THE CHINESE HAD CONCLUDED SOME LARGE SALES WHICH COULD NOT POSSIBLY BE DELIVERED WITHIN THE GOA DEADLINES AND THE CHINESE ATTEMPTED BOTH TO BLANKET THESE SALES INTO THE PRE-EXISTING CONTRACT CATEGORY AND ALSO TO INCLUDE THESE (UNDELIVERED) SALES IN THE HISTORICAL DELIVERY DATA ON WHICH QUOTAS WOULD BE BASED. ONE OF THE PRC NEGOTIATORS WAS MADAME HAN FANG-YU, WHO JUST RECENTLY HEADED A CHINATEX DELEGATION TO THE U.S. AND WHO SUBSEQUENTLY WENT TO OTTAWA FOR TEXTILE RESTRAINT NEGOTIATIONS WITH CANADA.

7. COMMENT: IT IS CLEAR AT LEAST IN THE CASE OF AUSTRALIA, THAT THE PRC DOES MAKE A STRONG LINKAGE BETWEEN ITS TEXTILE EXPORTS AND ITS TEXTILE-RELATED IMPORTS AND THAT IT IS PREPARED TO RETALIATE AGAINST RESTRAINTS. IT IS ONLY FAIR TO SAY THAT THERE ARE GOOD ECONOMIC REASONS FOR THE PRC TO MAKE A RELATIVE REDUCTION IN ITS IMPORTS OF U.S. COTTON IF ITS TEXTILE EXPORTS ARE RESTRAINED OR OTHER WISE FALL OFF. IT APPEARS LIKELY, THEREFORE, THAT THE PRC WOULD MAKE A SIMILAR LINKAGE IN ANY RESTRAINT NEGOTIATIONS WITH THE U.S. AS A CASE IN POINT, WE NOTE THAT MADAME HAN DID, IN FACT, POINT TO PRC PURCHASES OF US\$185 MILLION WORTH OF U.S. COTTON IN 1974 WHEN PEOPLE IN THE U.S. EXPRESSED SOME CONCERN ABOUT THE GROWTH OF PRC TEXTILE EXPORTS TO THE U.S.
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